How to Invest in a Market Crash

### Description

It's been a scary time for investors. The market crash of 2020 has been one of the most pronounced in history. For reference, a market crash is defined by a drop of 20% or more. No other crash in history has been as sharp and steep as this year's crash, and investors might be wondering how to invest during such times of volatility.



There's no simple answer. Each individual investor has their own risk tolerance, is at different stages in life and has different needs, which is why there's no "one strategy fits all" approach to investing. The approaches in today's market will differ by individual.

There are however, some principles that every investor can use to help guide their investment decisions.

## How to invest without emotion

The most important principle is not to let emotion dictate your investment strategy. You've heard it before: Retail investors typically underperform the market. If you dig a little deeper, you'll find out that there is a simple reason for this: emotion.

Retail investors underperform because they let emotion get in their way of investment decisions. This is particularly dangerous when fear takes hold. Many investors are experiencing their first market, and even those who lived through the Financial Crisis haven't experienced anything quite like the current bear market.

In such times, letting fear dictate your decision-making will likely lead investors to sell. Unfortunately, timing the market is not a winning strategy. Selling in a downturn is also not the best course of action.

You don't make money selling at a loss. Similarly, it's important to remember that most investors are sitting on a paper loss. The loss is only realized if you liquidate your position.

Learning how to invest without emotion is not easy. Even the most experienced investors are currently finding this difficult. It is however, best done by trading on fundamentals. Don't get sucked in to momentum investing, or the next shiny object. Let the numbers do the talking and in the long run, investors will end up on top.

## Invest in high-quality companies

Now is not the time to load up on speculative, penny stocks. Many high-quality blue chip companies now trade at a discount. Putting your money in undervalued blue chip stocks is how to invest and take advantage of the current market downtrend.

Case in point, the **Bank of Montreal** (TSX:BMO)(NYSE:BMO) is now trading at levels not witnessed since the financial crisis. It has lost approximately 33% of its value and is now trading at only 7.75 times earnings.

In fact, the company is trading at a 38% discount to historical averages. Like clockwork, the Bank of Montreal has always returned to trade in line with these averages.

As a result of the downturn, the bank is now yielding close to a record high of 6.75%. Investors would receive $675 in annual income for every $10,000 invested. Generating this much cash from Canada's Big Banks is rare.

Dividends also help insulate the shock of capital losses. In the case of the Bank of Montreal, it owns the longest uninterrupted dividend streak in Canada. Having paid out a dividend for 191 consecutive years, the dividend is among the safest in the country.



How to invest in a market crash is simple. First and foremost, investors need to remain calm and not let emotion rule the day. Second, park your money in discounted blue-chip stocks. It is one of the best ways to ride out the current volatility and will set an investor's portfolio up for success.

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**Date**
2025/08/13
**Date Created**
2020/04/02
**Author**
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